



# Public Sector Internal Audit and Internal Control Frameworks: Swiss Experience

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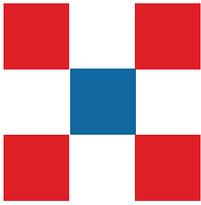


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# Public Sector Internal Audit and Internal Control Frameworks: Swiss Experience

The PEMPAL Internal Audit Community of Practice and Swiss State Secretariat for Economic Affairs held a Smart Interactive Talk (SIT) on July 1, 2020 which focused on the Swiss approach to the implementation of public sector internal audit and internal control frameworks.

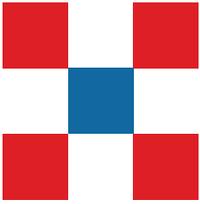
During the SIT, two colleagues from the Court of Auditors of the Canton of Bern, Mr. Thomas Remund, Head of the Court and Mr. Mark Bucher, Head of the Special Examination Department, shared their experience and insights on public sector internal audit activity and internal control framework implementation at the Canton level. A detailed presentation was followed by a question & answer session.

The SIT provided attendees with information and comments on the following subjects:

- Organization of the internal control framework in Switzerland (with a focus on the Canton of Bern).
- Organization of internal audit activity - centralized/decentralized, subnational, supreme audit institution, and audit committees.
- Internal auditors' evaluation of internal control in the public sector.

- Specific tools used during internal audit work, including data analytics, big data, and machine learning.
- The internal control system within each administrative unit.
- Collaboration between public sector internal audit and financial control bodies.
- External quality assessment of internal audit activity.
- COVID-19 - the increase in risk regenerated by the pandemic and the experience and lessons learned from working remotely.
- Examples of performance audits relating to subsidies, transportation, and the sale of public property which had led to significant financial savings and other qualitative impacts.
- Key performance indicators relating to internal audit.
- The whistleblower role of the Bern Court of Auditors.

The agenda for the event and the presentation are available at <https://www.pempal.org/events/public-sector-internal-audit-and-internal-control-frameworks-swiss-experience>.



# Issues raised during the Q&A session

There was a lively exchange of views during the question and answer session. The following four areas were of particular interest to participants:

1. The combination of external and internal audit roles within one audit entity.
2. The impact of the COVID-19 pandemic.
3. The whistleblower role of the Court of Auditors.
4. Measuring internal audit performance and the impact of audit findings.

## 1. The Combination of external and internal audit roles in a single audit entity

The Court of Auditors of Bern is unique in carrying out both an external and an internal audit role. As an external auditor, the Court is responsible for carrying out the financial audits of the accounts of the ministries and departments within the Canton. In total about a quarter of the Court's resources are reserved for this end of year financial audit. The administration prepares the financial statements in line with International Public Sector Accounting Standards. The Court applies the International Standards on Auditing for the external financial audit and the internal audit is done following the International Standards for the Professional Practice of Internal Auditing.

The Court's audit staff carry out both external and internal audit work and each team is responsible for examining one ministry and a number of departments. Normally the auditors change their audit clients once every five years.

When asked how they distinguish between external and internal audit work, the court explained the external audit work is essentially a financial audit and that this may rely on the internal audit work done to review the effectiveness of the internal control systems within the Ministries and Departments involved.

The Court is also audited (financial audit), by an external private sector audit firm.

## 2. The impact of the COVID-19 pandemic

There have been two distinct impacts of COVID-19: an increase in the level of inherent risk in major programs of loans and subsidies; and a change in the way the Court carries out its audit work.

### (i) Increased risk

COVID-19 has had an enormous economic impact on the Swiss government with a significant level of new Swiss Federation loans and guarantees to private businesses. The relatively simple bureaucratic systems put in place has led to an increase in inherent risks that must be considered by auditors. Although Switzerland is ranked number 4 on the Transparency International corruption index, there will almost certainly be some fraudulent lending. To address this there has been a multi-stage process to verify the entitlement including the existence of a proper requestor. The Swiss Federal Audit Office has been part of the verification process for some of the loans made to private sector entities. Only time will tell if the control mechanisms put in place have been effective in limiting fraud.

### (ii) Working Remotely

Because of the pandemic, the Court has had to carry out all its audits remotely. 99% of the audit working papers are stored digitally.

In general, this has worked better than they expected. Remote working has increased the importance of good planning. But it has also shown that it can be difficult to access the information needed to prove or validate certain audit assumptions. One of the main lessons learned has been the need to adjust the audit program to what could be best achieved in the new circumstances of the COVID-19 pandemic.

### 3. The whistleblower role of the Court of Auditors

The Court has had a whistleblowing function since 2014. This allows people to comment on abuse anonymously to the court. This includes people in the administration who may be concerned about losing their jobs if they report malfeasance. The whistleblowing process has helped the court to find and identify some risks that they would not find in any other way.

The Court explained that they are a small Canton and do not have a complex whistleblower process. They usually have a meeting with the whistleblower to explain how the system works and give them the chance to provide further information on this issue. This is also an opportunity for the whistleblower to stop the complaint if they consider the risk is too high for them. The

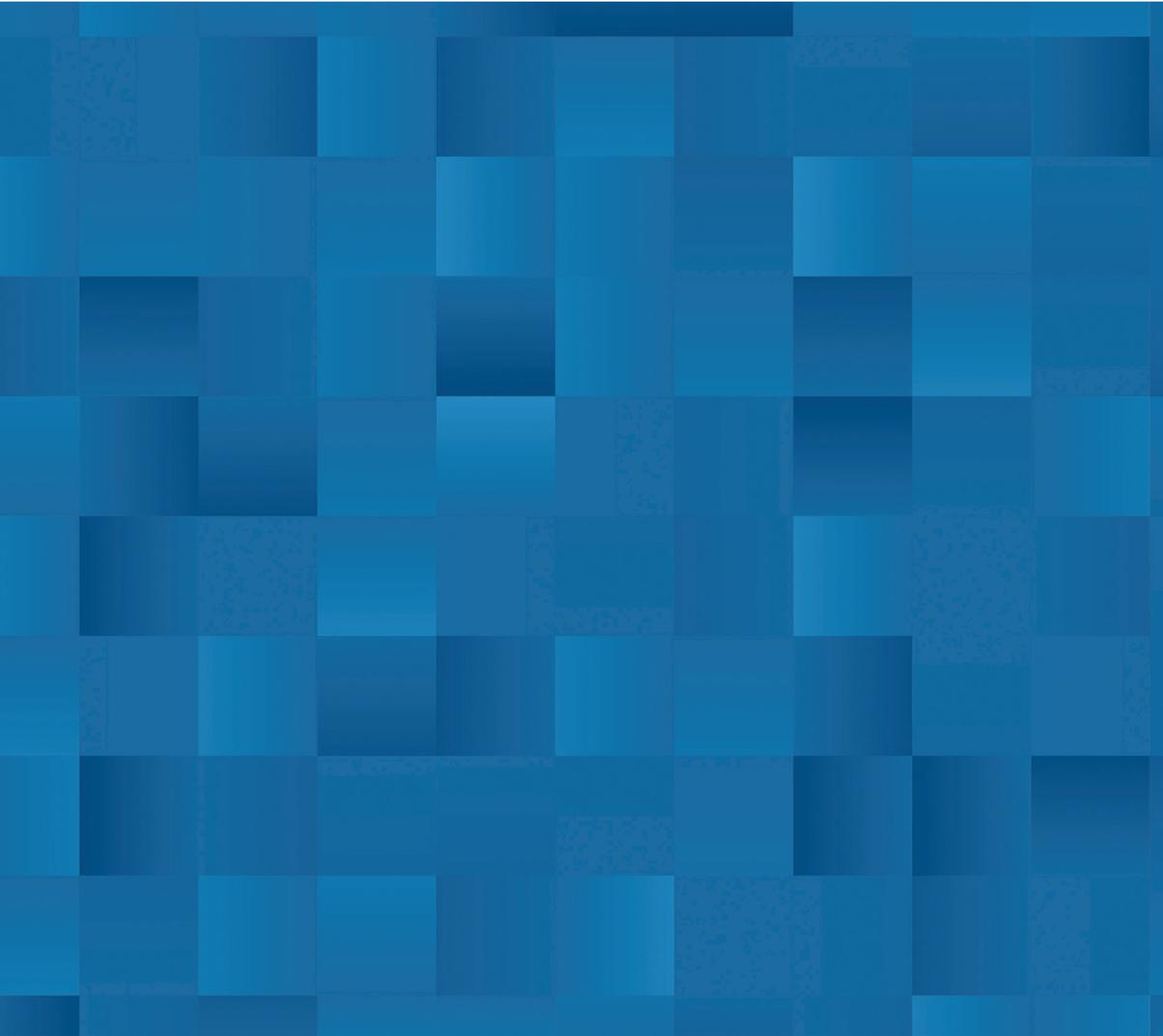
Court then carries out basic checks on the reliability of the information provided: e.g. does the whistleblower work in the Canton; does he/she have appropriate and reliable information on how the system is working. Once they begin their examination, they have little if any contact with the whistleblower.

If the whistleblower identifies something of high risk, for example that somebody is stealing cash, the court will carry out a special investigation immediately. However, for less urgent issues they will usually examine the issue raised during the next planned audit such that the client will not know that this issue has been generated by a whistleblower complaint.

## 4. Measuring internal audit performance and the impact of audit findings

The Court makes use of key performance indicators similar to those used by many internal audit units. For example, a yearly activity report, statistics on the number of examinations carried out against those planned, the materiality of the audit findings, the actual cost of carrying out examinations, and client satisfaction surveys.

The Court also seeks to measure its impact by quantifying the results of its work in Swiss francs saved as well as the quality and materiality of the recommendations made. The Court provided an example where a performance audit of one of the biggest hospitals in Switzerland discovered CHF 6 million of incorrect subsidy payments to doctors that had to be returned. In a second example the Court found that land was sold well below its market value mainly to avoid involving Parliament in the sale process.



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